

Message Text

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ACTION AF-04

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FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC IMMEDIATE 4225

C O N F I D E N T I A L KINSHASA 7737

LIMDIS

E.O. 11652: GDS

TAGS: ECON, EFIN, CG

SUBJ: DINI MISSION

FOR AFIC

REF: STATE 195231

1. DINI HAS HAD AN INTENSIVE SERIES OF DISCUSSIONS WITH GOZ OFFICIALS FROM THE CENTRAL BANK, FINANCE AND MOBUTU TWICE--ONCE AT LUNCH ON AUGUST 19 AND AGAIN AT BREAKFAST AUGUST 22. IN ADDITION TO EARLY INDICATIONS FROM DINI THAT THING WERE GOING FAIRLY WELL, I HAD GOTTEN OPTIMISTIC FEEDBACK FROM BOTH SAMBWA AND BISENGIMANA. DINI CAME TO MY RESIDENCE AND STAYED THROUGH MOST OF THE AFTERNOON ON AUGUST 22, DURING WHICH TIME HE GAVE ME A GOOD BRIEFING ON THE PROGRESS HE HAD BEEN ABLE TO MAKE. DINI DEPARTS FOR WASHINGTON AUGUST 23.

2. DINI SPENT A GREAT DEAL OF HIS TIME HERE MAKING SURE THAT ALL LEVELS OF THE GOZ--INCLUDING MOBUTU--REALIZED THE MAGNITUDE OF THE ECONOMIC/FINANCIAL PROBLEM. HE WAS ESPECIALLY HARD ON THE MINISTER
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OF FINANCE WHO BELIEVES HE HAS ACCOMPLISHED WONDERS

BY HOLDING THE BUDGET DEFICIT AT A RELATIVELY LOW LEVEL. DINI POINTED OUT TO HIM--AND TO BISENGI-MANA--THAT THE DEFICIT WAS KEPT LOW MAINLY BY FAILURE TO MAKE PAYMENTS ON THE MEDIUM AND LONG TERM DEBT AND BY OTHER ARREARAGES--WHICH MUST BE PAID. DINI WAS ADAMANT, AND CORRECTLY SO, IN MAINTAINING THAT THE SOLUTION TO ZAIRE'S PROBLEM MUST INCLUDE PROMPT AND FULL PAYMENT ON THE MEDIUM AND LONG TERM DEBT.

3. WHAT DINI WAS ABLE TO ACCOMPLISH--WITH BISENGI-MANA'S SPECIAL HELP--WAS TO ACQUIRE THE AGREEMENT OF ALL CONCERNED, INCLUDING MOBUTU, THAT THE GOZ WOULD ESTABLISH A "STABILIZATION COMMISSION" MADE UP OF REPRESENTATIVES FROM THE CENTRAL BANK, FINANCE, PRTEFEUILLE (BUSINESS SECTOR), AND THE PRESIDENCY (IBRD PLANNING TEAM). THIS COMMISSION, BUILDING ON THE AUSTERITY MEASURES ZAIRE HAS ALREADY TAKEN, WILL QUICKLY COME UP WITH A FULL STABILIZATION PROGRAM. DINI AND THE FUND MISSION WILL RETURN THEN, IN EARLY OCTOBER, TO APPROVE THE PROGRAM AND TO ESTABLISH IMF OVERSIGHT AND CONTROL MECHANISMS. DINI SAID THE OCTOBER DATE WAS HIS PREFERENCE SINCE THE IMF STAFF, IN VIEW OF THE UPCOMING WASHINGTON MEETINGS, NEEDED THE REST OF SEPTEMBER TO ORGANIZE ITSELF.

4. IN GENERAL TERMS, AS I UNDERSTAND IT, THE STABILIZATION COMMISSION" WOULD ESTABLISH A GOZ AUSTERITY BUDGET WHICH WOULD PROVIDE FOR (A) SERVICE PAYMENTS ON THE MEDIUM AND LONG TERM DEBT, (B) ESSENTIAL IMPORTS AND SERVICES, (C) FURTHER AUSTERITY MEASURES AND (D) SYSTEMATIC CONTROLS OVER EXPENDITURES. THE RESULTS, INTER ALIA, WOULD MEAN POSTPONEMENT OF CERTAIN INFRASTRUCTURE AND PRESTIGE PROJECTS AND THE EFFECTIVE "BOXING IN" OF MOBUTU. DINI FEELS STRONGLY (AND HE THINKS BISENGIMANA AGREES) THAT IF THE COMMISSION WERE NOT ESTABLISHED, MOBUTU WOULD PLAY ONE MINISTRY OFF AGAINST THE OTHER, BUT THAT A SOLID

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FRONT BY ALL ELEMENTS OF THE ECONOMIC/FINANCIAL BUREAUCRACY STANDS A CHANCE OF KEEPING MOBUTU'S NOSE TO THE REFORM GRINDWHEEL.

5. DINI ALSO ASSURED MOBUTU THAT THE FUND WOULD NOT INSIST UPON DEVALUATION AT LEAST IN THE SHORT RUN. DINI TOLD ME, AS WE HAD AGREED LAST MARCH, THAT DEVALUATION WITHOUT BUDGETARY CONTROLS WOULD SIMPLY ADD TO THE PROBLEM

IN THE SHORT RUN--AND HE FEARED THAT DEVALUATION, BY INCREASING THE TAX BASE, WOULD SIPHON OFF EVEN MORE RESOURCES FROM THE ECONOMY INTO THE GOVERNMENT'S HANDS AND THUS REMOVE INCENTIVES FOR REFORM. HE'S DEAD RIGHT.

6. ALL IN ALL, DINI WAS PLEASED AT THE RESULTS OF HIS MISSION, BUT HE IS STILL VERY CAUSTIOUS IN GUESSING AT THE CHANCES OF ULTIMATE SUCCESS. HE FEARS THAT MOBUTU "WANTS THE IMF PROGRAM MORE THAN HE WANTS THE MEASURES WHICH GO WITH IT." IN OTHER WORDS, MOBUTU HAS NOW UNDERSTOOD THE ADVANTAGES OF A MULTILATERAL SOLUTION UNDER IMF AUSPICES--BUT THERE IS TILL A QUESTION AS TO WHETHER HE WILL FOLLOW THE PRESCRIPTION.

7. DINI AGREED WITH ME THAT AT THIS STAGE WE COULD TELL THE PRIVATE BANKS AND OTHERS CONCERNED THAT THE GOZ HAD INVITED THE FUND; THE FUND HAS ACCEPTED; DINI ARRIVED AND THE GOZ HAS AGREED TO SET UP A STABILIZATION PROGRAM. THE NEXT WEEKS WILL DETERMINE HOW MUCH PROGRESS CAN BE MADE, BUT WE CAN ALREADY SAY THAT WE ARE MUCH MORE OPTIMISTIC THEN WE HAVE BEEN IN THE PAST.
WALKER

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